Market Analysis Report

CWB Grain Market Analyst Dwayne Lee looks at global supply and demand for wheat in 2001-02. He discusses how current production estimates are likely to affect world wheat prices.

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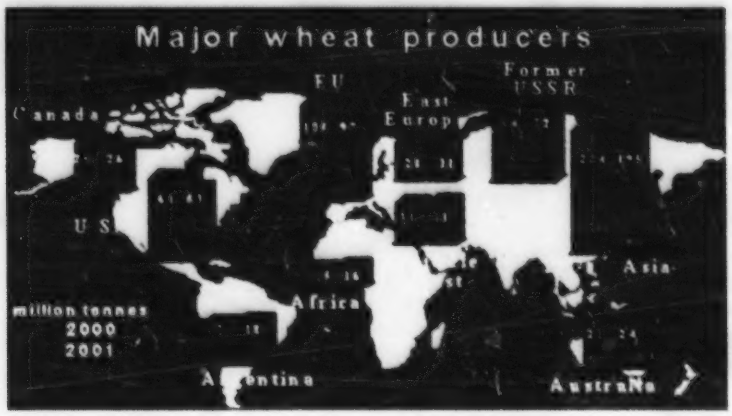
Report on Global Wheat Markets

With a considerable tightening in major wheat exporters' ending stocks, especially in the U.S., strong demand and further tightening of the global wheat ending stocks in 2001-02, global wheat prices still have potential to rise.

World Wheat Fundamentals

Production: The United States Department of Agriculture's (USDA) first official 2001-02 global wheat outlook was released on May 10, 2001. For the fourth year in a row, global production is projected to fall since the record harvest in 1997-98. Year over year, production is projected to drop 8 million tonnes from the 580 million tonnes produced in 2000-01 to 572 million tonnes in 2001-02. The graph below shows some of the key regional production changes. Canada's wheat production is expected to be marginally lower as increased area is offset by a return to normal yields. Production levels could be further decreased should dry conditions continue in southern Alberta and western Saskatchewan. Argentine and Australian wheat production are expected to increase by one million tonnes and 2.5 million tonnes respectively next year due to larger seeded areas and a return to normal yields. According to the USDA, Chinese wheat production is expected to increase two million tonnes to 104 million tonnes while favorable weather conditions in Russia, Eastern Europe and the Ukraine is expected to boost production in these regions as well.



Despite these significant increases, dry conditions in India are expected to result in a massive eight million tonnes drop in production from the record 76 million tonnes produced in 2000-01. Similar conditions are expected to result in a three million tonnes drop in Pakistan's wheat production estimate from the record 21 million tonnes produced in 2000-01.

A substantial decline in production is also expected in the European Union (EU) due to lower area and yield expectations. Wet conditions last fall made seeding in some areas

lower area and yield expectations. Wet conditions last fall made seeding in some areas virtually impossible and caused significant planting delays, particularly in France and the U.K. Cool wet conditions to date have delayed development and or increased disease potential in many regions, reducing production estimates. As a result, production in the EU is projected to drop from the record 105 million tonnes produced last year to 97.5 million tonnes this year.

The most significant production forecast in terms of global wheat prices in the upcoming year however is the U.S. Poor prices and seeding conditions in the U.S. resulted in a smaller area seeded to Hard Red Winter (HRW) wheat - in fact it is estimated to be the lowest since 1973! Because of excessive dryness followed by excessive moisture last fall, planting was delayed resulting in poor emergence and late development. This has left the HRW crop susceptible to growing season stresses and has increased abandonment potential. In their latest report, the USDA projected HRW production to drop almost 3.5 million tonnes in 2001-02 to only 19.5 million tonnes - the lowest level since 1967. A forecast of smaller area and lower yields for other U.S. wheat classes has reduced total wheat production potential even further. As a result, total wheat production in the U.S. is projected to drop 7.1 million tonnes to only 53.4 million tonnes. If realized, this would be the smallest crop since 1988. With the crop in the early heading stage, the chance of further production decreases still exists.

Global Consumption and Stocks: The USDA's projection for global wheat consumption in 2001-02 is forecast to reach 591 million tonnes.. Lower year-over-year consumption projections in the U.S. and the EU are expected to be more than offset by increases in Russia, India and the Ukraine. As a result, global wheat consumption will remain above production for the third consecutive year causing global wheat ending stocks to fall from 158.7 million tonnes in 2000-01 to about 139.6 million tonnes by the end of 2001-02. If this projection is realized, the stocks-to-use ratio would be the tightest since the early 1970's.

Major Exporter Stocks: Of even greater importance is the relative change in major exporters' stocks, particularly those in the U.S. Despite decreased domestic use and a lower export projection, with the massive production decline in the U.S., their wheat stocks are projected to fall 6.4 million tonnes to 16.1 million tonnes by the end of 2001-02. This would be the lowest stock level in the U.S. since 1996-97 when HRW prices at the Gulf of Mexico (a barometer of world wheat prices) averaged $177 per tonne U.S. compared to today's $136 per tonne U.S. According to the USDA, wheat stocks in the EU and Canada are also expected to drop 1.3 million tonnes and 0.3 million tonnes to 14.8 million tonnes and 7.9 million tonnes respectively. Conversely, the USDA is expecting a small 0.3 million tonne increase in Australia's wheat ending stocks by the end of 2001-02. All totaled, wheat stocks held in the major exporting countries are expected to drop from a burdensome 50.3 million tonnes to 42.6 million tonnes.

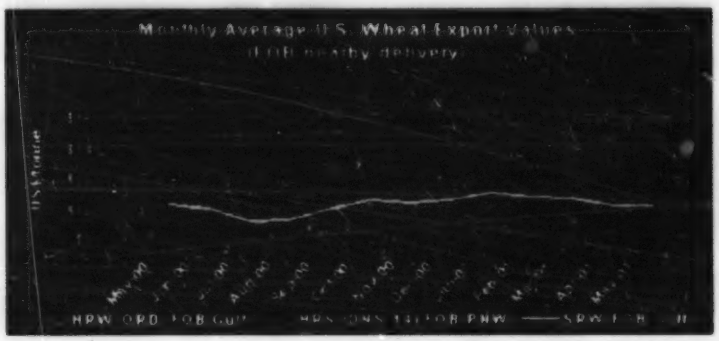
However on the flip side, although stocks in the major wheat exporting countries are tightening, 42.6 million tonnes pales in comparison to only 28 million tonnes that was carried out in 1995-96 resulting in skyrocketing wheat prices. Along with increased exportable supplies in Australia and Argentina, the increasing presence of minor exporting countries such as India and the Ukraine and projections for U.S. corn ending stocks in 2001-02 to remain at burdensome levels (only tightening by 2 mt to 48 mt) will temper potential upside on future wheat prices.

China's Wheat Stocks: Prior to their report, the USDA indicated that they would be revising China's consumption and wheat stocks estimates historically. Trade estimates suggested an upward revision in the order of 11 million tonnes. To the trade's amazement, the USDA increased Chinese wheat ending stocks for 2000-01 by 40 million tonnes to 54.2 million tonnes! Annual consumption estimates were revised lower going back through 1982-83. Projections for next year's ending stocks suggest that Chinese wheat ending stocks are to fall 8.5 million tonnes to 45.7 million tonnes, which even after the revision, is historically tight. This being said, the bottom line is that Chinese wheat ending stocks are still unknown and not necessarily indicative of trade activity (i.e. imports/exports are as much as function of China's internal policy as are stock levels). With imports projected to remain small again in 2001-02, unless the Chinese come back into the market and start importing, or even exporting wheat, in a meaningful way, these revisions are likely to have little impact on

exporting wheat, in a meaningful way, these revisions are likely to have little impact on prices.

Trade: Import demand is projected slightly higher in 2001-02 increasing from 105.6 million tonnes in 2000-01 to 107.6 million tonnes next year. Part of this rise is due to an expected increase in Pakistan's import requirements given the drop in their production. Brazil is expected to remain the world's largest importer at 7.5 million tonnes followed by Iran, Egypt and Japan. Increased production in Australia, Argentina and the Ukraine is expected to increase exportable supplies in the coming year. With projections for another large crop in Canada, exports are projected to increase one million tonnes to 19 million tonnes in 2001-02. The government of India has indicated the need to reduce surplus stocks by encouraging as much as five million tonnes of exports in 2001-02, up from the estimated 2.5 million tonnes this year. At present, the USDA is projecting India to export three million tonnes in 2001-02. These increases are largely offset by reduced export projections for the U.S., EU and Turkey as a result of smaller crops.

Prices: Since this time last year, Minneapolis and Kansas nearby wheat futures have only come up $0.02 per bushel U.S., $0.32 per bushel respectively while Chicago wheat futures have fallen $0.05 per bushel. However, since the collapse of wheat futures prices last August, Minneapolis, Kansas and Chicago have gained $0.49 per bushel, $0.68 per bushel and $0.35 per bushel respectively reflecting the overall tightening of the fundamentals in 2000-01 relative to 1999-2000. With export basis levels also improving considerably U.S. cash export values for Dark Northern Spring with 14% protein (FOB the Pacific Northwest) and Hard Red Winter (FOB Gulf of Mexico) have increased $12 per tonne and $22 per tonne respectively since May 2000. Over a similar time frame, Soft Red Winter (FOB Gulf of Mexico) values have fallen about $1 per tonne(see graph below).



Summary Lower yields, increased abandonment and lower planted area have set the stage for a considerable change in U.S. wheat supply and demand fundamentals and a positive swing in world wheat prices. Lower seeded area and the likelihood of reduced yields in the EU, tighter global wheat supplies and strong global trade projections should provide some additional underlying support for wheat prices. However, projections of large wheat ending stocks in the major exporting countries for the current year (2000-01) and a considerable U.S. corn surplus again next year is expected to limit the upside potential of this market.

Questions? Comments? E-mail:
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